

NIE APPROACH TO DONOR ACTIVITIES

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NIE Approach

- Unit of analysis
 - Transaction
 - Contract between USAID/Gov't
- Features of the transaction
 - Specific investments by various parties
 - Timing
 - Incentives for opportunism
- Institutional environment
 - Players' incentives (working of political institutions)
 - Restrictions on players' strategies

Governance of Transaction

- Key endogenous variable
- Purpose: limit opportunism / protect specific investments
 - Long term/one shot
 - Implementation restrictions
 - Multiple/single contractors
 - Change incentives
 - Close management
 - Disbursement schedules
 - ***Affects nature of transaction***

Ex-Ante Performance of Transaction

- Governance design and implementation features require *ex-ante* recomputation of transaction
- New benefits and costs
 - Reduced “efficiency” (2nd best)
 - Large political transaction costs
 - Transaction may not be implementable

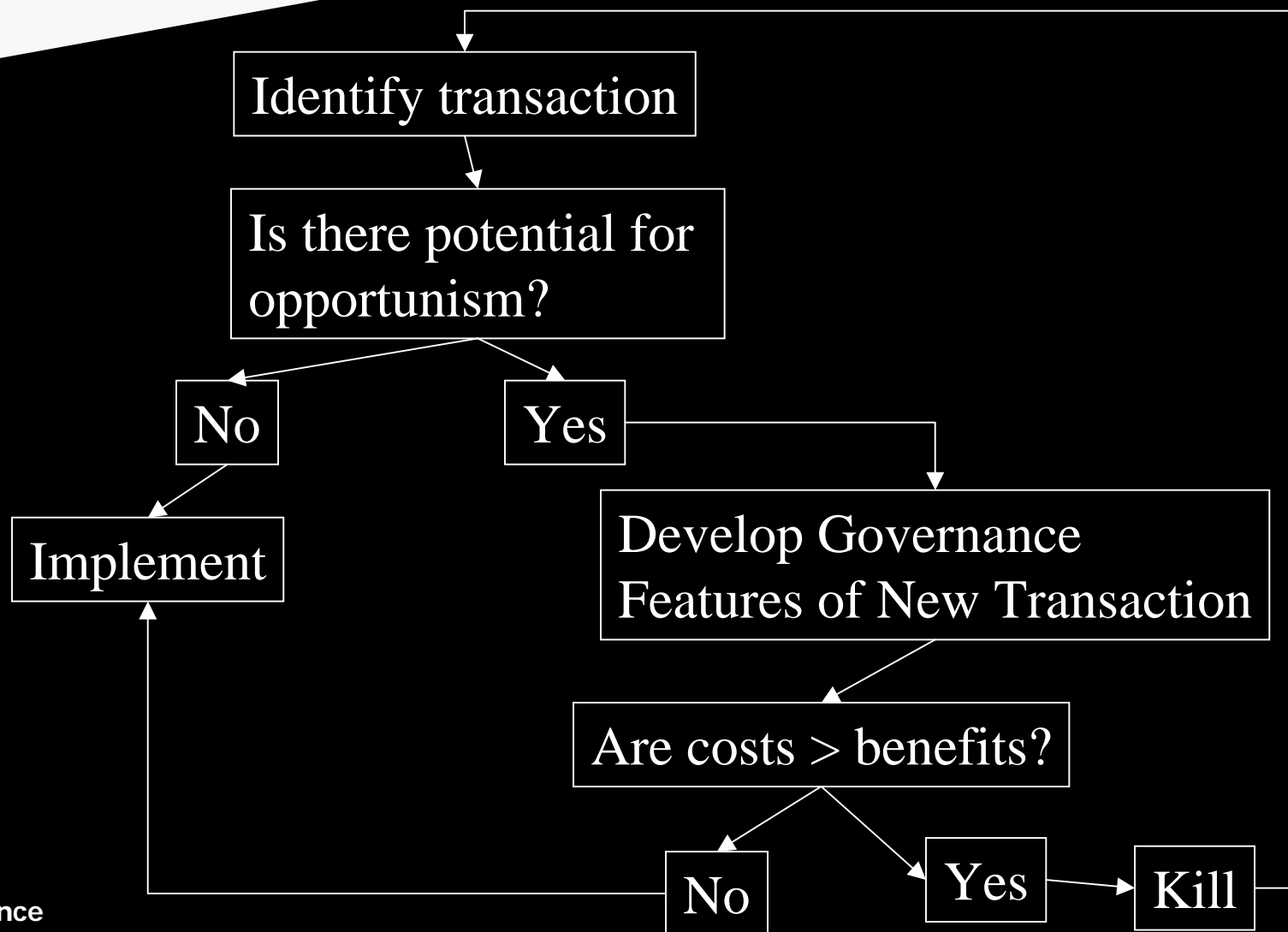
Outer Features of Transaction

- Adaptability to changes
- Consistency across transactions
- Complexity
 - Depending on
 - institutional environment
 - transaction “inner” features
 - Policy rigidities
 - Inefficiencies
 - No feasible transaction

Trade Liberalization & SME Participation

- Transaction
 - Country specific
 - Keep T.Lib. “exogenous” (too large)
 - Identify main barriers for SME expansion
 - Farm coops
 - Banking reform
 - Development of NGOs
 - Infrastructure reform
 - Bankruptcy reform

Policy Flow Chart



Summary

- NIE approach requires attention to
 - Features of transaction
 - Deep understanding of institutional environment & working of political institutions
 - Link governance to features of
 - » Transaction
 - » Institutional environment
- Main implications
 - Rigidities/2nd/3rd bests may be only feasible options
 - No transaction may also be only feasible option